

LOCAL GOVERNMENT INVESTMENT POOL
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004



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Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 29, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

The Virginia Treasury Board
and Pool Participants
Local Government Investment Pool

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Local Government Investment Pool as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Department of the Treasury's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Government Investment Pool as of June 30, 2004, and the changes in net assets for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Local Government Investment Pool's basic financial statements. The Schedule of Participant Share and Ratio Information and the Schedule of Investments are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our 2004 Report on Compliance and on Internal Control over Financial Reporting on our consideration of the Department of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

In accordance with Government Auditing Standards, we have also considered the internal control over financial reporting and performed tests of its compliance with certain provisions of laws, regulations, and contracts related to Local Government Investment Pool and included the results in our report on the Virginia Department of the Treasury. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the Local Government Investment Pool (the LGIP) annual financial report presents an analysis of the Local Government Investment Pool's financial performance during the fiscal year that ended on June 30, 2004. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

LGIP Activities and Highlights

The Local Government Investment Pool was established January 1, 1981 pursuant to the Investment of Public Funds and Local Government Investment Pool Act, Section 2.2-4600 of the *Code of Virginia*. The LGIP enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," definition of "2a7-like pools."

Overview of the Financial Statements

This discussion and analysis is an introduction to the LGIP's basic financial statements. This report also contains other supplementary information in addition to the basic financial statements. The LGIP is not required to present government-wide financial statements since all of its activity is reported in a fiduciary fund, which would not change in measurement focus (economic resources) or basis of accounting (accrual) for government-wide statements.

The financial statements of the LGIP offer financial information about its activities. The Statement of Net Assets provides information about the nature and amounts of the LGIP's cash, investments and receivables (assets) and their administrative fees (liabilities). The statement of Changes in Fiduciary Net Assets reports the additions to, deductions from and net increases in net assets.

Financial Analysis

The primary purpose of the LGIP is to provide a fund that would allow governmental entities to increase their return on investments with minimal credit risk. Summary financial information follows.

Local Government Investment Pool (in millions)

	2004	2003
Total assets	\$2,791	\$2,778
Total net assets	\$2,791	\$2,778

Both the net assets in the fund and the number of participating entities were relatively unchanged in fiscal year 2004. Active accounts numbered 843 at the end of the fiscal year.

**Local Government Investment Pool Changes in Net Assets
(in millions)**

	2004	2003
Additions:		
Proceeds from units admitted	\$ 5,132	\$ 4,648
Investment earnings	21	32
Total additions	<u>5,153</u>	<u>4,680</u>
Deductions:		
Disbursements for units withdrawn	5,140	4,548
Total deductions	<u>5,140</u>	<u>4,548</u>
Increase in net assets	13	132
Net assets, July 1	<u>2,778</u>	<u>2,646</u>
Net assets, June 30	<u><u>\$ 2,791</u></u>	<u><u>\$ 2,778</u></u>

Participation in the LGIP is voluntary, so participant activity variances from year to year are normal. Factors that could influence a potential participant would be the availability of funds to invest and the relative attractiveness of the LGIP's return as compared to other options that may be available to the entity.

Investment earnings were lower this year, as the benchmark federal funds rate was 1% during the entire period. The Federal Open Market Committee raised the federal funds rate to 1.25% on June 30, 2004, in what was expected to be the first of a series of interest rate increases.

Financial Statements

Local Government Investment Pool
Statement of Fiduciary Net Assets
As of June 30, 2004

Assets	
Investments in cash equivalents, at value (Notes 1 & 2)	\$ 1,410,713,248
Investments in securities, at value (Notes 1 & 2)	1,377,004,653
Interest receivable	<u>2,959,562</u>
Total assets	<u>2,790,677,463</u>
Liabilities	
Administrative fee payable	<u>2,772</u>
Total liabilities	<u>2,772</u>
Net Assets	
Held in trust for pool participants	<u><u>\$ 2,790,674,691</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

Local Government Investment Pool
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2004

Additions	
Contributions:	
Proceeds from units admitted	\$ 5,131,917,857
Total contributions	<u>5,131,917,857</u>
Investment earnings:	
Interest income	22,672,795
Net accrued interest	2,959,562
Net change in unrealized appreciation of investments for the year	(3,244,517)
Less administrative fee	<u>(1,356,524)</u>
Net investment earnings	<u>21,031,316</u>
Total additions	<u>5,152,949,173</u>
Deductions	
Disbursements for units withdrawn	<u>5,140,633,570</u>
Total deductions	<u>5,140,633,570</u>
Change in net assets	12,315,603
Net assets - July 1, 2003	<u>2,778,359,088</u>
Net assets - June 30, 2004	<u><u>\$ 2,790,674,691</u></u>

The accompanying notes to the financial statements are an integral part of this statement.



Notes to the Financial Statements

LOCAL GOVERNMENT INVESTMENT POOL
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Local Government Investment Pool (LGIP) was established January 1, 1981 pursuant to the Local Government Investment Pool Act, Section 2.2-4600 of the *Code of Virginia*. The LGIP enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the the Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," definition of "2a7-like pools."

A. Basis of Presentation

The Treasury Board of Virginia administers the LGIP and presents the activity on an accrual basis. Earnings and expenses accrue daily, but are credited or charged to participants' accounts on a monthly basis.

B. Investment Valuation

Investments in the LGIP are stated at market value where available. However, market value does not include market accrued interest (totaling \$787,890) which is included as a portion of interest receivable on the balance sheet. Where market value is unavailable, the investments are reported at cost, which due to their short-term nature approximates market value.

Shares are purchased and redeemed at amortized cost. If the LGIP's current market-based net asset value per share should deviate from its amortized cost price per share by an amount exceeding $\frac{1}{2}$ of 1 percent, the State Treasurer, Chair of the Treasury Board, shall assess the situation and determine what action, if any, is in the best interest of the LGIP and its participants. Market-based net asset value is determined on a monthly basis.

2. INVESTMENTS

Funds in the LGIP are invested in accordance with Treasury Board investment guidelines and include obligations of the United States Government or agencies thereof, repurchase agreements, bankers' acceptances, commercial paper, short-term corporate and bank notes, and certificates of deposit. The maximum average maturity for the portfolio may not exceed 90 days. The maximum percentage of the Fund permitted in each category and the actual allocation at June 30, 2004 are as follows:

	<u>Maximum Permitted</u>	<u>Actual June 30, 2004</u>
U. S. Treasury/Agency	100%	28%
Bankers' Acceptances, Negotiable Certificates of Deposit and/or Negotiable Bank Deposit Notes	40%	18%
Non-Negotiable Certificate of Deposit	25%	0%
Commercial Paper	35%	24%
Corporate Notes and Bank Notes	25%	10%
Repurchase Agreements	50%	20%
Taxable Municipal Obligations	10%	0%

The LGIP's investments on the following page have been evaluated to determine the level of credit risk assumed by the LGIP at June 30, 2004. Credit risk is the risk that the LGIP may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the LGIP or its safekeeping agent in the LGIP's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the LGIP's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the LGIP's name. There are no investments in category 2 or 3 at June 30, 2004.

	Carrying Amount	Fair Value
Cash and cash equivalents:		
Non-Negotiable Certificates of Deposit	\$ 5,000,000	\$ 4,996,800
Short Term Investment Fund	2,455,054	2,455,054
U. S. Treasury/Agency	121,740,674	121,723,807
Commercial Paper	521,611,179	521,563,337
Negotiable Certificates of Deposit	125,000,000	124,980,250
Corporate Notes and Bank Notes	75,000,000	74,994,000
Repurchase Agreements	560,000,000	560,000,000
Total cash and cash equivalents	<u>\$ 1,410,806,907</u>	<u>\$ 1,410,713,248</u>
Investments:		
U. S. Treasury/Agency	\$ 647,548,820	\$ 645,615,641
Commercial Paper	150,475,156	149,897,083
Negotiable Certificates of Deposit	370,014,458	368,617,400
Corporate Notes and Bank Notes	213,449,697	212,874,529
Total investments	<u>\$ 1,381,488,131</u>	<u>\$ 1,377,004,653</u>

3. DISTRIBUTIONS

The LGIP distributes investment income net of expenses to participants on a monthly basis. The dividend distribution is automatically reinvested into additional shares.

4. SURETY BOND

Jody M. Wagner, Treasurer of Virginia is covered under a Faithful Performance Duty Bond in the amount of \$3,000,000 with the Travelers Insurance Company as surety.

Supplementary Information

Local Government Investment Pool
Selected Participant Share and Ratio Information

Selected ratios and data for the average number of shares outstanding
throughout the years ended June 30, 2004, 2003 and 2002

	June 30, 2004	June 30, 2003	June 30, 2002
Investment income ¹	\$ 0.01138	\$ 0.01561	\$ 0.02697
Expenses	<u>0.00060</u>	<u>0.00060</u>	<u>0.00062</u>
Investment income - net	0.01078	0.01501	0.02635
Income distributions	<u>0.01078</u>	<u>0.01501</u>	<u>0.02635</u>
Increase in net value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Asset Value:			
Beginning of period	<u>1.00000</u>	<u>1.00000</u>	<u>1.00000</u>
End of period	<u>1.00000</u>	<u>1.00000</u>	<u>1.00000</u>
Ratio of investment income-			
Net to average net assets ¹	1.08%	1.50%	2.64%
Ratio of expenses to average net assets	0.06%	0.06%	0.06%

¹ FY 2003 and FY 2002 amounts have been revised to remove the effect of the change in unrealized appreciation.

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS
As of June 30, 2004

	Yield @ Purchase	Carrying Value	Fair Value	Percentage of Investments at Fair Value
U.S. Government Agency Notes:				
Federal Agricultural Mortgage Corporation Discount Note due 7/28/04	1.27%	34,950,442.59	34,950,442.60	0.01
Federal Farm Credit Bank FF 1.25% due 6/10/05	1.25%	15,000,000.00	14,996,550.00	0.00
Federal Home Loan Bank 1.15% due 12/16/04	1.13%	25,000,000.00	24,945,250.00	0.01
Federal Home Loan Bank 1.05% due 1/5/05	1.05%	25,000,000.00	24,998,750.00	0.01
Federal Home Loan Bank 1.45% due 3/11/05	1.44%	14,600,000.00	14,554,448.00	0.00
Federal Home Loan Bank 1.40% due 3/29/05	1.39%	25,000,000.00	24,898,500.00	0.01
Federal Home Loan Bank 1.35% due 4/15/05	1.35%	25,000,000.00	24,867,250.00	0.01
Federal Home Loan Bank 1.38% due 5/3/05	1.36%	25,000,000.00	24,851,500.00	0.01
Federal Home Loan Bank 1.53% due 5/4/05	1.51%	50,000,000.00	49,765,750.00	0.02
Federal Home Loan Bank Step-up 1.38% due 8/10/04	1.38%	75,000,000.00	74,835,750.00	0.03
Federal Home Loan Bank Step-up 1.70% due 8/18/04	1.70%	25,000,000.00	24,929,750.00	0.01
Federal Home Loan Bank Step-up 1.25% due 9/3/04	1.25%	50,000,000.00	49,765,500.00	0.02
Federal Home Loan Mortgage Corp. Discount Note due 7/15/04	1.26%	14,759,729.92	14,757,662.40	0.00
Federal Home Loan Mortgage Corp. Discount Note due 7/19/04	1.13%	17,837,752.67	17,833,624.17	0.01
Federal Home Loan Mortgage Corp. Discount Note due 8/3/04	1.06%	41,060,068.73	41,041,568.26	0.01
Federal National Mortgage Association 1.20% due 7/14/04	1.20%	25,000,000.00	24,997,250.00	0.01
Federal National Mortgage Association 1.22% due 7/21/04	1.22%	25,000,000.00	24,992,750.00	0.01
Federal National Mortgage Association 1.27% due 4/25/05	1.26%	10,000,000.00	9,937,500.00	0.00
Federal National Mortgage Association 1.40% due 5/3/05	1.39%	25,000,000.00	24,859,500.00	0.01
Federal National Mortgage Association 1.61% due 5/13/05	1.60%	19,000,000.00	18,916,970.00	0.01
Federal National Mortgage Association 1.65% due 5/16/05	1.64%	25,000,000.00	24,898,500.00	0.01
Federal National Mortgage Association Discount Note 1.40% due 7/1/04	1.40%	17,099,335.00	17,098,480.00	0.01
Federal National Mortgage Association Discount Note 1.26% due 7/28/04	1.26%	29,968,500.00	29,961,750.00	0.01
Federal National Mortgage Association Discount Note 1.28% due 8/10/04	1.28%	24,962,666.67	24,955,472.22	0.01
Federal National Mortgage Association Discount Note 1.06% due 8/18/04	1.06%	24,869,708.33	24,854,041.66	0.01
Federal National Mortgage Association Discount Note 1.13% due 11/12/04	1.14%	24,784,986.11	24,716,138.89	0.01
Federal National Mortgage Association Floater 1.24% due 1/28/05	1.24%	24,998,257.50	24,995,500.00	0.01
United States Treasury Notes 5.875% due 11/15/04	1.13%	10,286,328.13	10,152,300.00	0.00
United States Treasury Notes 2.00% due 11/30/04	1.11%	20,111,718.75	20,011,000.00	0.01
Total U.S. Government Agency Notes		769,289,494.40	767,339,448.20	0.28
Repurchase Agreements Collateralized by U.S. Government Obligations:				
Goldman Sachs 1.30% due 7/1/2004	1.30%	560,000,000.00	560,000,000.00	0.20
Total Repurchase Agreements Collateralized by U.S. Government Obligations		560,000,000.00	560,000,000.00	0.20
Corporate Notes and Bank Notes:				
American Express Centurion 1.23% due 1/20/05	1.23%	25,000,000.00	24,997,500.00	0.01
American Express Centurion MTN 1.14% due 2/11/05	1.14%	25,000,000.00	24,995,750.00	0.01
Bank of America FR MTN 1.43% due 10/22/04	1.22%	9,512,445.00	9,507,030.00	0.00
Bank of America 1.10% due 7/7/04	1.10%	75,000,000.00	74,994,000.00	0.03
General Electric Capital Corp. FRN 1.25% due 7/8/04	1.25%	25,000,000.00	25,031,750.00	0.01
General Electric Capital Corp. FR MTN 1.36% due 7/15/04	1.36%	15,000,000.00	15,005,700.00	0.00
General Electric Capital Corp. 1.25% due 2/3/05	1.08%	9,914,652.00	9,907,227.00	0.00
Goldman Sachs Group 7.50% due 1/28/05	1.19%	21,056,400.00	20,590,200.00	0.01
Lehman Brothers Holdings FR MTN 1.41% due 4/5/05	1.41%	27,589,567.50	27,548,950.00	0.01
Merrill Lynch MTN FRN 1.315% due 7/12/04	1.32%	50,000,000.00	49,999,000.00	0.02
Procter & Gamble Co. 6.60% due 12/15/04	1.14%	5,376,632.80	5,291,421.80	0.00
Total Corporate Notes and Bank Notes		288,449,697.30	287,868,528.80	0.10

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS (Continued)
As of June 30, 2004

	Yield @ Purchase	Carrying Value	Fair Value	Percentage of Investments at Fair Value
Negotiable Certificates of Deposit:				
Abbey National Treasury 1.25% due 5/26/05	1.25%	14,995,050.00	14,928,750.00	0.00
Bank of Nova Scotia FRN 1.03% due 3/30/05	1.03%	24,994,150.00	24,900,500.00	0.01
Bayerische Landesbank NY 1.27% due 2/25/05	1.27%	25,011,725.00	24,907,750.00	0.01
BNP Paribas SA-NY FRN 1.20% due 6/22/05	1.24%	24,988,677.50	24,856,000.00	0.01
Canadian Imperial Bank Commerce-NY 1.05% due 10/4/04	1.05%	24,996,862.50	24,898,500.00	0.01
Canadian Imperial Bank Commerce-NY 1.25% due 11/22/04	1.25%	30,001,620.00	29,906,400.00	0.01
Credit Suisse First Boston NY 1.24% due 8/6/04	1.24%	25,024,425.00	24,930,750.00	0.01
Deutsche Bank-NY 1.13% due 1/10/05	1.13%	25,000,000.00	24,853,250.00	0.01
First Tennessee Bank 1.20% due 7/16/04	1.20%	25,000,000.00	24,996,500.00	0.01
Lloyds Treasury Bank NY 1.13% due 12/20/04	1.11%	50,009,348.23	49,824,000.00	0.01
Regions Bank 1.09% due 11/12/04	1.09%	25,000,000.00	24,937,500.00	0.01
Societe Generale NY 1.20% due 8/18/04	1.20%	24,996,375.00	24,939,000.00	0.01
Societe Generale NY 1.28% due 3/30/05	1.28%	49,996,225.00	49,807,000.00	0.02
State Street Bank & Trust 1.15% due 11/22/04	1.15%	25,000,000.00	24,928,000.00	0.01
Wells Fargo Bank NA 1.30% due 7/28/04	1.30%	25,000,000.00	24,996,000.00	0.01
Wells Fargo Bank NA 1.31% due 7/30/04	1.31%	75,000,000.00	74,987,750.00	0.03
Total Negotiable Certificates of Deposit		495,014,458.23	493,597,650.00	0.18
Non-Negotiable Certificates of Deposit:				
Community Bankers Bank CD 1.25% due 9/15/04	1.25%	5,000,000.00	4,996,800.00	0.00
Total Non-Negotiable Certificates of Deposit		5,000,000.00	4,996,800.00	0.00
Commercial Paper:				
American Express Credit due 7/8/04	1.12%	49,968,888.89	49,962,777.78	0.02
Aspen Funding due 7/1/04	1.50%	49,069,955.33	49,067,501.73	0.02
Edison Asset Securitization due 8/16/04	1.07%	10,611,156.02	10,604,833.45	0.00
FCAR Owner Trust due 7/6/04	1.08%	31,967,360.00	31,964,160.00	0.01
General Electric Capital Corp. due 7/12/2004	1.06%	19,948,766.67	19,945,244.45	0.01
General Electric Capital International Funding, Inc. due 7/2/04	1.08%	24,987,250.00	24,985,750.00	0.01
Ing (US) Funding due 8/12/04	1.29%	24,950,729.17	24,943,604.17	0.01
Ing (US) Funding due 12/23/04	1.61%	14,864,000.00	14,844,916.67	0.00
Kitty Hawk Funding due 7/1/04	1.50%	20,837,131.75	20,836,089.85	0.01
Morgan Stanley Dean Witter FF due 1/5/05	1.48%	25,000,000.00	24,908,750.00	0.01
Morgan Stanley Dean Witter FF due 2/17/05	1.48%	50,000,000.00	49,774,541.67	0.02
Morgan Stanley Dean Witter FF due 3/10/05	1.48%	50,000,000.00	49,764,041.67	0.02
Nestle Capital Corp. due 7/1/04	1.04%	49,978,333.33	49,975,833.33	0.02
New Center Asset Trust A-1+/P-1 due 7/1/04	1.46%	99,995,944.44	99,990,944.44	0.03
Toyota Motor Credit due 7/13/04	1.06%	24,937,430.56	24,932,513.89	0.01
Toyota Motor Credit due 7/30/04	1.28%	24,973,333.33	24,967,861.11	0.01
UBS Finance Delaware due 7/1/04	1.42%	99,996,055.56	99,991,055.56	0.03
Total Commercial Paper		672,086,335.05	671,460,419.77	0.24
Money Market Funds:				
Short Term Investment Fund 1.01% due 7/01/2004	1.01%	2,455,054.35	2,455,054.35	0.00
Total Money Market Funds		2,455,054.35	2,455,054.35	0.00
Total Investments		\$ 2,792,295,039.33	\$ 2,787,717,901.12	1.00